



**Strategic Sourcing Initiative
Frequently Asked Questions**

July 10, 2007

Q1. What is strategic sourcing?

A1. Strategic sourcing is a process designed to allow the State of Iowa to purchase the best products and best services for the best value in an effort to achieve significant savings through smart buying. Strategic sourcing utilizes thorough analysis of what Iowa buys, from whom, at what price, and at what volume in addition to applying innovative procurement techniques so the State can leverage its consolidated purchasing power to find the best values available in the marketplace.

Q2. How does strategic sourcing differ from conventional purchasing?

A2. Strategic sourcing differs from conventional purchasing in the following ways:

- Emphasis on **full life-cycle costs** of a product, not just its purchase price
- Consolidated purchasing power across the supplier relationship, **across all buyers**
- Tighter supplier relationships to achieve better standardization and improvements in cost, quality and delivery time
- Simplified sourcing requirements through common standards, work patterns and information requirements. This can lead to lower inventory costs and reductions in purchasing order frequencies
- Improved teamwork and purchasing skills through sharing information about products, markets and respective needs to meet wider organizational objectives, and
- Leveraging web technology to create new forums for interaction with suppliers (e-RFPs, reverse auctions).

Q3. Why did Iowa undertake a strategic sourcing effort?

A3. Strategic sourcing initiatives have been pursued in the private sector for many years, and recently the public sector has begun launching similar type initiatives. Results other states have achieved in reducing the costs of goods and services and a desire to improve procurement skills have been a catalyst for the state of Iowa. Strategic sourcing has become a best practice in procurement management and makes good business sense for meeting the state's ongoing commitment to the taxpayers

Q4. What were the specific goals and objectives of the strategic sourcing initiative and what is the status of those goals?

A4. Strategic sourcing project goals:

1. Revise Iowa's sourcing approaches to generate substantial savings while meeting the State's needs for supplies and services.

- The percentage of savings generated by this initiative has surpassed expectations. Below is information about the target percentage reduction from existing contracts the State of Iowa expected and what was actually achieved.

- a. Office supplies. Projected savings = 8%; actual savings = 15%
- b. Roofing design. Projected savings = 3%; actual savings = 31%
- c. Office equipment. Projected savings = 12%; actual savings = 20.1%
- d. Woodward waste water treatment facility Projected savings = 5%; actual savings = 24%
- e. Building automation. Projected savings = 5%; actual savings = 7%
- f. Sanitary paper. Projected savings = 6%; actual savings = 19%
- g. Energy. Projected savings = 5%; actual savings = 11.2%
- h. Fuel card. Projected savings = 1.0%; actual savings = 1.5%
- i. MRO. (Industrial supplies) Projected savings = 6%; actual savings = 16.3%
- The State of Iowa conducted its first reverse auction, with excellent results. The auction was for paper products (paper towels, toilet paper, napkins, facial tissues, etc.). The preliminary savings analysis shows that on a \$700,000 spend the State achieved \$130,000 in savings (19%). This is on the high side of the generally expected savings for reverse auctions.
- Revisions were made in the sourcing approach to improve negotiations, the use of RFPs and RFIs.

2. Improve procurement processes and practices.

Many improvements were made to the procurement process as a result of the strategic sourcing initiative. Listed below are a few of the results:

- Communication of new contracts.
 - “Path to Savings” documents have been presented to Agencies as a way to communicate the results and key information that buyers need to know to take advantage of the new contracts.
- Iowa Procurement Certification Program designed. An education and certification program was designed to focus on promoting Iowa specific best practices, strategic sourcing approaches and a greater understanding of the Iowa purchasing code.
- Standardized contract terms and conditions were developed to support cooperative purchasing approaches. The Attorney General’s office has been assisting in developing standardized terms and conditions and standardizing RFP’s so procurement staff does not have to start the procurement process from scratch.
- Contract Management and Administration guides were developed to assist utilization of best practices in administering and managing the state wide, multi-agency contracts to their highest potential for value and savings. This guide was used by HRE training during their service contracting course.

3. Transfer knowledge to state staff through training and coaching

- Two training sessions were held for procurement personnel in state government with over 100 attendees. In addition, each category team received individual coaching and facilitation.
- DAS purchasing agents have been assigned a category to complete and an A. T. Kearney staff person provide each person specialized training in strategic sourcing. A manual will be developed to assist staff with future strategic sourcing projects.
- National Institute of Government Purchasing (NIGP) classes to improve procurement skills have been identified and DAS Procurement Services will begin sponsoring the classes in Iowa. The classes will be offered to state and local government purchasing professionals beginning this month.

4. Clearly understand with a high degree of certainty how the state procures goods and services today and the potential for savings in the future.

Initially, all departments reviewed their spend information, and verified that it was accurate. This was based upon looking at objective codes and the spending associated with the objective code. As we looked closer at spend, we found many categories had inaccurate information because of incorrect coding, and/or the categories were too broad to get a good picture about what was being purchased.

Q5. Who else is pursuing strategic sourcing?

A5. Strategic sourcing initiatives have been successfully completed in the states of Virginia, California, Georgia, Illinois, Pennsylvania, Florida, Oregon, New Mexico, Rhode Island, Connecticut and Delaware. Large private sector companies also use strategic sourcing, with the following companies having been very vocal about their successes: General Motors, BellSouth, FedEx, Disney and Hewlett Packard.

Q6. How was A. T. Kearney selected?

A6. The strategic sourcing initiative was initiated through an open competitive procurement. An RFP was issued January 4, 2005 by DAS Purchasing for a partner to assist with a strategic sourcing initiative. Five vendors responded to the RFP. A. T. Kearney received the highest ranking score and was thus awarded the contract.

Q7. Who is A. T. Kearney and what are their qualifications to perform strategic sourcing services?

A7. A.T. Kearney is the global leader in achieving results and procurement reform through strategic sourcing, including 12 successful projects with public sector customers in the U.S., Canada, U.K., Brazil, Italy, and elsewhere. A.T. Kearney has conducted over 750 strategic sourcing engagements for more than 500 customers, addressing over \$180 billion in spend and realizing \$25 billion in savings. A. T. Kearney has combined resources with CGI-AMS for this project. CGI-AMS is the U.S. subsidiary of CGI, a \$3+ billion IT services company that realizes 28% of its revenues from services to the public sector. CGI-AMS is a market leader in government procurement - it has deployed the largest procurement solution for a U.S. federal agency, providing over 22,000 buyers in the Department of Defense with software to manage more than \$36 billion in purchases.

Q8. What kinds of savings were realized through strategic sourcing by another state where A.T. Kearney was the consultant?

A8. Savings for completed categories in the California strategic sourcing initiative, which A.T. Kearney was the contractor follows:

- Office supplies – 18%
- Office equipment – 43%
- PC hardware – 26%
- CHP vehicles – 9% front-wheel drive
- Proprietary Rx – 25%

Q9. How was the strategic sourcing initiative planned and delivered?

A9. The strategic sourcing effort was delivered in two phases:

1. In Phase 1 A. T. Kearney and state agencies analyzed what Iowa spends on goods and services each year to identify spending that could be reduced through strategic sourcing. Phase I was completed in June 2005. Phase I began with an opportunity assessment and analysis of state spending. The ultimate goal is to save taxpayers money while modernizing the state's procurement processes. The state targeted only goods and services categories that offered the greatest potential for savings.
2. Phase 2 involved, the actual strategic sourcing of the identified goods and services from Phase 1. Beginning in November, 2005 statewide category teams sourced two groups of categories, –

Wave 1 and Wave 2 categories. The categories were grouped and prioritized based on the following:

- Estimated addressable spend
- Estimated savings potential
- Perceived ease of implementation
- Standardization of specifications, products
- Supply market complexity
- State's past procurement efforts

Initially, three waves were proposed. After pursuing two waves, the State determined that a third wave was unnecessary and spending additional money with a contractor was not in the best interest of the State or taxpayer.

Q10. When will the savings begin?

A10. Savings began as soon as new contracts were executed in early 2006.

Q11. How were savings to be calculated?

A11. Savings were based upon comparison of the unit price of the most current state contract to the price obtained through strategic sourcing. Volume is based upon the State's most current spend.

$$\text{Savings} = \text{Old contract price} - \text{New contract price} \times \text{annual volume}$$

Q12. What types of procurements are included in the scope of this project?

A12. All purchasing and contracts are within the scope of this project. The Executive Committee has decided to focus sourcing efforts on the following commodities during **Wave 1**:

- Building Construction and Management
- Fleet: Vehicles, Supplies, Services
- Food
- Fuels, Oils
- IT Contractors
- Maintenance Supplies
- Office Equipment
- Office Supplies

Q13. What is the State doing to build their strategic sourcing capabilities for the future?

A13. During Phase I, an assessment of the Iowa procurement process was conducted based on public sector procurement best practices. As a result of this assessment, opportunities were identified where improvements could be made to the state's overall procurement process. These defined procurement improvement initiatives were addressed in Phase II, and positioned the state to more effectively sustain strategic sourcing capabilities in the future. Some of the initiatives follow:

- Standardized Sourcing Methodology
- Strategic Sourcing Training and Procurement Certification
- Spend Management
- Supplier and Contract Management

Q14. Why is the State Auditor's office involved?

A14. DAS decided to hire the Auditor to review and validate savings in order to verify the progress of this initiative new to state government.

Q15. How was A. T. Kearney paid?

A15. A. T. Kearney was paid like other consulting firms - for the resources to do the project for a fixed fee and no more. In return, A. T. Kearney guaranteed that the state would receive savings. If A. T. Kearney did not achieve the guaranteed savings, the state would not pay the full fee.

Q16. What are the successes to date on this initiative?

A16. Despite the challenging start, there is good news!

Procurement processes in Iowa state government have been around a very long time; this initiative is expected to produce very favorable results over time. Our processes have improved; we've realized efficiencies and we must continue our work on this to realize the most benefit for Iowa's taxpayers. Remaining hurdles are clear; now we must move forward to work through them for the good of the State as a whole – not as separate working agencies. We are well on our way and here are a few examples of success resulting from this initiative:

- The State of Iowa is on track to achieve over \$8 million in savings over the length of contracts in place today, resulting in a return on investment of 125%.
- The State conducted its first reverse auction, with excellent results. The auction was for paper products (paper towels, toilet paper, napkins, facial tissues, etc.). The preliminary savings analysis shows that on a \$700,000 spend the State achieved \$130,000 in savings (19%). This is on the high side of the generally expected savings for reverse auctions.
- Revisions were made in the sourcing approach to improve negotiations, the use of RFPs and RFIs.
- New Iowa Procurement Certification Program designed. An education and certification program was designed to focus on promoting Iowa specific best practices, strategic sourcing approaches and a greater understanding of the Iowa purchasing code.
- Standardized contract terms and conditions were developed to support cooperative purchasing approaches. The Attorney General's office has been assisting in developing standardized terms and conditions and standardizing RFP's so procurement staff does not have to start the procurement process from scratch.
- Contract Management and Administration guides were developed to assist utilization of best practices in administering and managing the state wide, multi-agency contracts to their highest potential for value and savings. This guide was used by DAS training during their service contracting course.
- Two training sessions were held for procurement personnel in state government with over 100 attendees. In addition, each team category team received individual coaching and facilitation.
- National Institute of Government Purchasing (NIGP) classes to improve procurement skills have been identified and DAS Procurement Services is sponsoring the classes in Iowa. The classes will be offered to state and local government purchasing professionals.

**State of Iowa Strategic Sourcing
Savings and Expenses
As of July 10, 2007**

| Wave 1 Categories | YEAR ONE Savings submitted to Auditor | YEAR ONE Savings Validated by Auditor | Contract Terms | # yrs. | Total Savings over Length of Contracts |
|---|--|--|-----------------------|------------------------------------|---|
| Office supplies | \$1,350,000 | \$787,495 | 2006 - 2009 | 3 | \$2,362,485 |
| Fuel card | \$138,466 | \$138,466 | 2007 - 2011 | 4 | \$553,864 |
| Office equipment | \$276,519 | \$276,519 | 2007 - 2011 | 4 | \$1,106,076 |
| Energy | \$947,304 | \$927,232 | 2007 - 2013 | 6 (*)only 1 yr of savings shown | \$927,232 |
| Food | \$81,005 | \$81,005 | | 1 | \$81,005 |
| Roofing design | \$268,367 | \$268,367 | 2007 - 2012 | 7 | \$1,878,569 |
| Sanitary paper | \$131,319 | \$133,365 | | 1 | \$133,365 |
| Maintenance supplies | \$76,166 | \$47,704 | 2007 - 2010 | 3 | \$143,112 |
| Building automation | \$213,158 | \$213,758 | 2007 - 2013 | 6 | \$1,282,548 |
| Vehicles | | \$0 | | | |
| Woodward construction | \$77,500 | \$0 | | | |
| IVH construction | \$25,750 | \$0 | | | |
| Master A & E Services | \$362,424 | \$0 | | | |
| Savings | \$3,947,978 | \$2,873,911 | | | \$8,468,256 |
| Wave 1 Payments | | | | | |
| ATK Payments 1-4 | \$2,739,333 | | | | |
| ATK Final payment | \$766,000 | | | | |
| AOS validation costs | \$115,000 | | | | |
| Interest on Loan | \$138,000 | | | | |
| Total costs for Wave #1 | | \$3,758,333 | | | \$3,758,333 |
| Difference in Validated Savings (over length of contract) vs. Total Costs for Wave #1. | | | | | \$4,709,923 |
| Return on Investment (over contract terms) | | | | | 125% |